

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: June 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Wilson, Golden, Hightower) *KLW*
Division of Economics (Sibley) *MS*
Office of the General Counsel (Dziechciarz) *CRS*

MZ

ALM

RE: Docket No. 20190116-SU – Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.

AGENDA: 07/09/19 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: *All Commissioners*

PREHEARING OFFICER: Clark

CRITICAL DATES: 07/15/19 (60-Day Decision on Interim Rates)

SPECIAL INSTRUCTIONS: None

Case Background

Merritt Island Utility Company, Inc. (Merritt Island or Utility) is a Class C wastewater system serving approximately 141 residential and 1 general service bulk customer. Water service is provided by the City of Cocoa. According to the Utility's 2018 Annual Report, total gross revenues were \$65,442 and total operating expenses were \$73,250, resulting in a net operating loss of \$7,808.

The original owner, Mobile Home Investors, Inc., was initially granted a certificate to operate a wastewater system in existence in 1974.¹ The wastewater system was subsequently transferred several times.² The most recent transfer to Merritt Island was approved in 2017.³

Rate base was last established for the Utility in a 2008 staff-assisted rate case (SARC).⁴ In addition, net book value for transfer purposes was updated to reflect balances as of December 22, 2016, when the system was transferred to Merritt Island. The Utility's test year rates became effective on June 13, 2018, following approval of a 2018 price index rate adjustment.

On May 16, 2019, Merritt Island filed its application for a SARC. In its application, the Utility requested a test year ended March 31, 2019, for interim and final rate purposes.

This recommendation addresses the Utility's interim rates. The Commission has jurisdiction pursuant to Sections 367.082 and 367.0814(4), Florida Statutes (F.S.).

¹Order No. 6365, issued December 2, 1974, in Docket No. 730391-S, *In re: Application of Mobile Home Investors, Inc., for a certificate to operate an existing sewer utility in Brevard County, Florida.*

²Order No. 7296, issued June 28, 1976, in Docket No. 750664-S, *In re: Application of Mobile Home Investors, Inc., and Colony Park Utilities, Inc. for approval of the transfer of assets and Certificate No.137-S from the former to the latter. (Section 367.071, Florida Statutes);* Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young;* Order No. PSC-07-0420-FOF-SU, issued May 14, 2007, in Docket No. 060636-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc., holder of Certificate No. 137-S in Brevard County from Eileen Rogow to Michael Abramowitz;* Order No. PSC-14-0673-PAA-SU, issued December 5, 2014, in Docket No. 120285-SU, *In re: Application to transfer wastewater facilities and Certificate No. 137-S in Brevard County from Colony Park Utilities, Inc. to Colony Park Development Utilities, LLC.*

³Order No. PSC-2017-0366-PAA-SU, issued September 27, 2017, in Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

⁴Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

Discussion of Issues

Issue 1: Should an interim revenue increase be approved?

Recommendation: Yes, Merritt Island should be authorized to collect interim revenues as indicated below:

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Wastewater	\$66,595	\$3,584	\$70,179	5.38%

(Wilson, Golden)

Staff Analysis: On May 16, 2019, Merritt Island filed an application requesting an interim increase in its wastewater rates. Section 367.0814(4), F.S., details interim rate increases for staff-assisted rate cases.

Section 367.0814(4), F.S., states:

(4) The commission may, upon its own motion, or upon petition from the regulated utility, authorize the collection of interim rates until the effective date of the final order. Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief. To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility, and interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.

Staff has reviewed the Utility's filed operation and maintenance (O&M) expenses in relation to its revenues. Based on the Utility's filing, staff recommends that Merritt Island has demonstrated a *prima facie* entitlement to an interim rate increase in accordance with Section 367.0814(4), F.S.

Revenue Increase

In order to establish interim rate relief as prescribed by Section 367.0814(4), F.S., staff used the Utility's revenues reflected in its filing for the test year ended March 31, 2019. The test year revenues equal \$66,595 from wastewater service rates. There were no miscellaneous service revenues reported for the test year. The test year O&M expenses equal \$70,018. The difference between the Utility's test year revenues and O&M expenses is \$3,423.

In addition, the interim wastewater increase should be grossed up to include regulatory assessment fees (RAFs). The Commission has previously determined that it would be inappropriate to approve an increase in a utility's rates to cover its operating expenses and deny that same utility the funds to pay RAFs.⁵ Furthermore, by approving an interim rate increase that

⁵Order No. PSC-01-1654-FOF-WS, issued August 13, 2001, in Docket No. 010396-WS, *In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.*

allows for the payment of RAFs, the utility should be able to fully cover its O&M expenses. The RAFs associated with the interim increase equal \$161.

In total, Merritt Island should be allowed an interim revenue increase of \$3,584 (\$3,423 + \$161) to produce revenues sufficient to cover O&M expenses and additional RAFs. Thus, staff recommends the appropriate interim revenue requirement should be \$70,179. This is a 5.38 percent increase above the Utility's test year revenues. Table 1-1 illustrates staff's interim increase calculation.

**Table 1-1
Determination of Interim Increase**

	Water
1. Utility Adjusted Test Year O&M Expenses	\$70,018
2. Less: Utility Test Year Revenues	<u>\$66,595</u>
3. Revenues to Cover O&M Expenses	\$3,423
4. Interim Revenue Increase	\$3,423
5. RAFs on Interim Rate Increase	\$161
6. Total Interim Revenue Increase (\$)	<u>\$3,584</u>
7. Total Interim Revenue Increase (%)	<u>5.38%</u>

Issue 2: What are the appropriate interim water rates?

Recommendation: The interim rate increase of 5.38 percent should be applied as an across-the-board increase to the service rates in effect as of March 31, 2019. The rates, as shown on Schedule No. 1, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Sibley)

Staff Analysis: Staff recommends that interim service rates for Merritt Island be designed to allow the Utility the opportunity to generate annual operating revenues of \$70,179. Since there were no miscellaneous service revenues reported by the Utility for the test year, this would result in an increase of \$3,584 (5.38 percent) to service rates.

Staff recommends that the interim rate increase of 5.38 percent should be applied as an across-the-board increase to the service rates in effect as of March 31, 2019.⁶ The rates, as shown on Schedule No. 1, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

⁶The Utility had a 2019 price index effective June 9, 2019. Interim rate increases are applied to the rates in effect at the end of the test year.

Issue 3: What is the appropriate security to guarantee the interim increase?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Hightower, Wilson, Golden)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 1, the total annual interim increase is \$3,584. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$2,428. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule No. 1.

The owner/president provided the most recent three years of his personal financial net worth. Staff reviewed the confidential personal financial information provided by the owner/president.⁷ Staff believes that in this circumstance the owner/president has demonstrated the financial ability and wherewithal to guarantee the interim refund in this rate increase, if necessary. Further, the owner/president has provided a personal guarantee in the amount of \$2,428, in this docket.⁸

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Accordingly, the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking.

⁷ Document No. 04598-2019 (Confidential), in Docket No. 20190116-SU.

⁸ Document No. 05085-2019.

Issue 4: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Dziechciarz)

Staff Analysis: The docket should remain open pending the Commission's final action on the Utility's requested rate increase.

MERRITT ISLAND UTILITY COMPANY, INC		SCHEDULE NO. 1	
TEST YEAR ENDED MARCH 31, 2019		DOCKET NO. 20190116-SU	
MONTHLY WASTEWATER RATES			
	RATES EFFECTIVE 03/31/2019 (1)	CURRENT RATES (2)	STAFF RECOMMENDED INTERIM
<u>Residential Service</u>			
All Meter Sizes			
5/8" x 3/4"	\$10.91	\$11.15	\$11.50
Charge per 1,000 gallons	\$2.91	\$2.97	\$3.07
6,000 gallon cap			
<u>General Service</u>			
5/8" x 3/4"	\$10.91	\$11.15	\$11.50
3/4"	\$16.37	\$16.73	\$17.25
1"	\$27.28	\$27.88	\$28.75
1-1/2"	\$54.55	\$55.75	\$57.50
2"	\$87.28	\$89.20	\$92.00
3"	\$174.56	\$178.40	\$184.00
4"	\$272.75	\$278.75	\$287.50
6"	\$545.50	\$557.50	\$575.00
Charge per 1,000 gallons	\$3.49	\$3.57	\$3.68
<u>Bulk Service</u>			
All Meter Sizes			
(120 ERCs)	\$1,309.20	\$1,338.00	\$1,380.00
Charge per 1,000 gallons	\$3.49	\$3.57	\$3.68
720,000 gallon cap			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$19.64	\$20.06	\$20.71
6,000 Gallons	\$28.73	\$28.97	\$29.92
10,000 Gallons	\$28.73	\$28.97	\$29.92
(1) The interim rate increase was applied to the rates effective on 03/31/2019.			
(2) The current rates became effective June 9, 2019 as a result of a price index.			